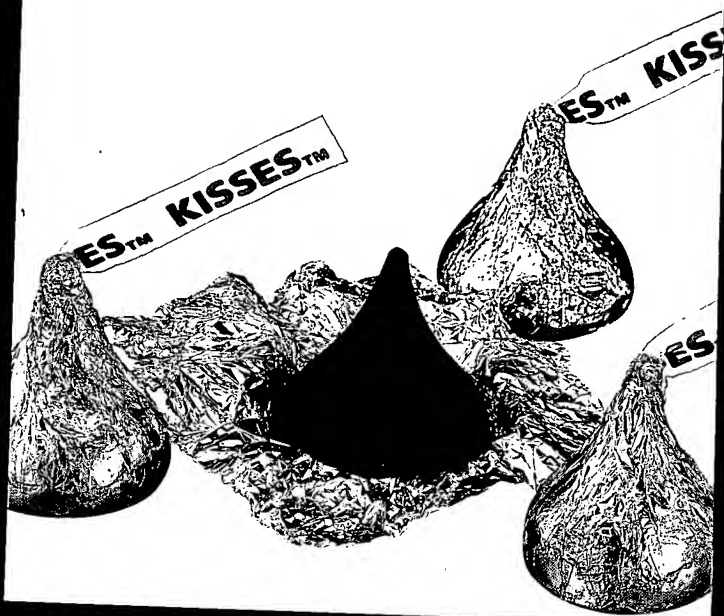




**Remember your
first Kiss?**



Or your first *Hershey's*
Milk Chocolate Bar?

Or *Reese's* Peanut
Butter Cup? We asked
a few of our stock-
holders to go back in
time and share their
thoughts about
Hershey's products.
Here is what they said.



*"We love Reese's Peanut
they taste great*

Marissa and Maria McDonald

7

Stockholders
since 1992

Compound Annual Growth Rate
of stockholder value on 12/31/98:



*Butter Cups because
and come two in a pack!"*



Favorite
product



Reese's
Peanut Butter Cups
Hershey's #1 Brand

4

***“Growing up
in Puerto Rico,
Hershey’s
Kisses were my
first love... but
now Twizzlers
are number one
in my heart.”***

Wilson Sanchez
40-something

Employee since 1987
Stockholder since 1996

Compound Annual Growth Rate
of stockholder value on 12/31/98:



**Favorite
product**



Twizzlers
America's favorite licorice



*"We really like
making S'mores
on cold nights
after we finish
our barn work."*

Holly, Heidi and Harrison Miller
16, 14 and 13

Stockholders
since 1996

Compound Annual Growth Rate
of stockholder value on 12/31/98:



Favorite
product



Hershey's Milk Chocolate Bar
Hershey's Bar, a part of life since 1899



Jack Bishop
60-something

Employee
1966-97

Stockholder
since 1978

Compound Annual Growth Rate
of stockholder value on 12/31/98:

*“Since
I retired,
every day
is like
PayDay!”*



**Favorite
product**



PayDay

Hershey's fastest growing
brand in 1998



"As long as I can remember,

Walter and Jennie Horstick
70-something

Stockholders
since 1971

Compound Annual Growth Rate
of stockholder value on 12/31/98:



*Jennie's loved Kit Kat ...
and me."*



Favorite
product



Kit Kat

Sold in the U.S. by Hershey since 1970

Financial Highlights

	1998	1997	Percent Change
In thousands of dollars except per share amounts			
Net sales	\$4,433,615	\$4,302,236	+3
Net income	340,889	336,251	+1
Income per share – Basic	2.83	2.25	+6
– Diluted	2.84	2.23	+5

Hershey Foods Corporation...

is the leading North American manufacturer of quality chocolate and non-chocolate confectionery and chocolate-related grocery products and has a variety of international operations.

Our mission...

is to be a focused food company in North America and selected international markets and a leader in every aspect of our business. Our goal is to enhance our number one position in the North American confectionery market, be the leader in chocolate-related grocery products and build leadership positions in selected international markets.

Expectations + Performance = HSY Stock Price

To Our Stockholders:

Hershey Foods Corporation's performance in 1998 did not meet our expectations. While net sales of \$4.436 billion increased by 3.1% and earnings per share (diluted) of \$2.34 increased by 4.9%, achieving new records for the corporation, we had planned for better performance.

As you know, 1998 was an exuberant year for the U.S. stock market, particularly in selected sectors. Unfortunately the food industry in general, and Hershey's Common Stock price in particular, did not participate in this market growth as HSY ended the year at \$62³/₁₆, essentially even with our close in 1997.

When we released our fourth quarter and year-end financial results in late January 1999, the stock market shared our disappointment. Consistent with today's volatile market, our stock price declined accordingly because we did not meet market expectations.

Looking ahead to 1999 and beyond, as we work to enhance the value of your investment, we believe we can better accomplish this task by focusing more intensely on what we do best: manufacturing, selling, distributing and marketing high quality

chocolate and non-chocolate confectionery and related grocery products.

An important and most difficult decision in 1998 was to divest our pasta business. Pasta provided nice growth for over 30 years, but based upon our assessment of the longer-term prospects for the pasta category; i.e., little or no growth and intensive competition from both within and outside of the United States, we made the decision to sell the pasta business and redeploy the proceeds elsewhere in the corporation.

Obviously, this move will reduce our earnings base somewhat but will enhance our returns on capital. The pasta business was sold in January 1999 for \$450 million, resulting in a one-time, after-tax gain of approximately \$165 million, or \$1.13 per share (diluted).

Now we intend to focus all of our attention on Hershey's core businesses of chocolate and non-chocolate confectionery products, chocolate-related grocery products which capitalize on our strong confectionery brands in the North American market, and key confectionery brands in selected international markets.

HERSHEY APPEALS TO ALL AGES

Hershey's products, and ownership in our company, appeal to consumers of all ages as can be seen by the stockholder comments in this report. Building upon our leadership position in the U.S. confectionery market, we continued to drive retail sales for the confectionery category. This has been accomplished through creative selling, marketing and merchandising techniques, which not only drove 1998 U.S. retail market growth for total confectionery in our major classes of trade at

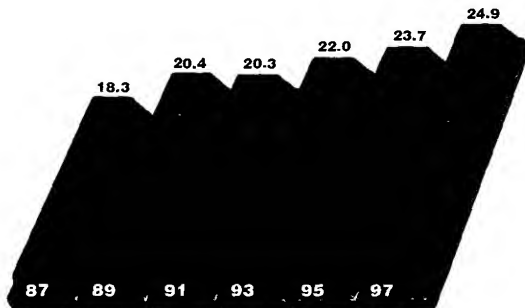


Kenneth L. Wolfe
Chairman and Chief Executive Officer

Joseph P. Viviano
Vice Chairman

U.S. Per Capita Confectionery Consumption

Source: U.S. Department of Commerce;
excludes gum; pounds per person.



"It's a rare day when my family doesn't use

Don Landis
50-something

Stockholder
since 1993

Compound Annual Growth Rate of
stockholder value on 12/31/98:

a rate of 2.9%, but enabled Hershey to achieve retail growth of 5.6%, exceeding the category growth rate and leading to record levels of market share.

Hershey's North American confectionery operations produced earnings comparable to the prior year, as manufacturing efficiencies related to higher sales volume were offset by higher commodity costs, principally milk and cocoa, and higher costs associated with seasonal and thematic merchandising efforts such as additional packaging, handling, shipping and storage.

New products continued to add significant growth to our business, with *ReeseSticks* achieving record introductory sales levels for Hershey and the industry. Introduced in February 1998, this product has been so successful that we do not have enough manufacturing capacity to produce all the usual pack types. New production equipment will be added in 1999 to enable us to fully develop the potential of this excellent new brand.

Hershey's Bites, introduced in December 1998, gives us another quality entry in the unwrapped, bite-sized candies category. *Bites* are available in four flavors: *Hershey's Milk Chocolate with Almonds*, *Reese's Peanut Butter*, *Hershey's Cookies 'n' Creme* and *Almond Joy*. Unwrapped, bite-sized chocolate candy represents about 28% of the chocolate packaged candy category, with sales of such items growing at a rate of approximately 7% during the year.

Whether the two new flavors of *Hershey's Nuggets* (see page 28) and *Reese's Crunchy Cookie Cups* miniatures are called new products or line extensions, they add up to the

Hershey's Syrup."



**Favorite
product**



Hershey's Syrup
Introduced in 1926

same thing: incremental sales dollars and excitement for the category. New items are important because they increase consumer interest in the category and result in increased sales of other candy products as the impulse to buy and eat candy favorites takes charge. Introduced in July 1998, these products are solid entries for our packaged candy line.

Another source of significant growth in 1998 was the focus on sales expansion of newly acquired brands such as *PayDay*, *Whoppers* and *Jolly Rancher*. Including new products such as *Jolly Rancher Jolly Jellies*, the former Leaf brands achieved sales growth rates more than double our overall confectionery growth rate in 1998. This growth is an important part of our Leaf integration plan and is necessary to increase the utilization of acquired plants to optimal levels.

The final stage of our Leaf plant rationalization took place in early 1999, and we now have just three production facilities of the eight originally acquired. Assuming further sales growth for these brands, as well as continued plant efficiency gains, we should achieve profit margins comparable to our other confectionery brands by the end of 1999.

Thematic merchandising provides a fresh look, enables additional placements within stores, creates interest and excitement in our products, and drives growth in our established brands. These programs are especially effective in aligning our products with activities which are top-of-mind for consumers and fit well with the impulse nature of our business. Our strengths in merchandising give us a competitive



"We love Mounds almost as much as our return

**Dick and Joan
Montague**
60-something

Stockholders
since 1995

Compound Annual Growth Rate
of stockholder value on 12/31/98:

Earnings Per Share (diluted)

From Continuing Operations



on HSY."



Favorite
product



Mounds
Acquired by Hershey
in 1988

advantage in special one-time events such as *"The Lost World: Jurassic Park"* (1997) and *"Godzilla"* (1998), as well as in our seasonal businesses.

Although sales generated by the *"Godzilla"* program during the second quarter of 1998 fell short of the high level set by the 1997 *"Lost World"* program, the promotion still was very successful. We plan to continue to create exciting new programs such as these, as well as enhancing existing sponsorships such as *NASCAR*, *NFL*, *NCAA FINAL FOUR* and *MAJOR LEAGUE BASEBALL*?

However, there are some higher packaging, handling and distribution costs associated with this thematic merchandising strategy. We must execute this approach in a more cost-effective manner, reduce complexity and improve sales forecasting. These improvements will be easier to accomplish as we gain the full effectiveness from our new E21 enterprise-wide information system.

Hershey Pasta and Grocery Group experienced sales growth of 3.2% in 1998, with all of the gain coming from volume growth for grocery products such as syrup, cocoa and ice cream toppings, as well as licensing activities and food service sales. Pasta sales were down slightly, in line with the category's decline of 3.3% for the year. Earnings increased substantially for this business, with grocery products providing the primary

1 "The Lost World: Jurassic Park" is a trademark of Universal City Studios, Inc. and Amblin Entertainment, Inc. "Godzilla" is a trademark of Toho Co., Ltd.

2 MAJOR LEAGUE BASEBALL is a registered trademark of Major League Baseball Properties, Inc. NASCAR is a registered trademark of the National Association of Stock Car Auto Racing, Inc. NFL is a trademark of the National Football League. NCAA and FINAL FOUR are registered trademarks of the National Collegiate Athletic Association.



"I can remember buying a bag of Reese's Pieces

Cindy Blust
20-something

Stockholder
since 1993

Compound Annual Growth Rate
of stockholder value on 12/31/98:

Free Cash Flow

Dollars in Millions



when I went to see the movie 'E.T.'™

™E.T.™ is a trademark of Universal City Studios, Inc.



Favorite
product



Reese's Pieces
E.T.'s favorite candy

contribution to the higher profits. Earnings for the pasta business were above the previous year's despite a difficult commodities environment.

Our international operations struggled in 1998 because of the economic turmoil in the Asian and Russian markets. While this is a small part of our overall business, the results were disappointing. During the year we realigned our Russian business, closing an administrative office in Moscow. In the latter part of the year, business in our Asian markets rebounded somewhat, and new distribution arrangements established in Brazil contributed incremental sales in 1998.

Looking to the future internationally, we intend to grow our international business significantly by emphasizing key Hershey's brands in selected markets. In recent years nearly half of our international sales have been generated by four brands: *Hershey's Kisses*, *Hershey's Nuggets*, *Hershey's Cookies 'n' Creme* and *Hershey's Syrup*. We plan to focus on building global brand equity for these products along with the establishment of more effective distribution arrangements.

SHARED SERVICES ORGANIZATION MANAGEMENT CHANGES

In 1998 Hershey completed the second full year of its new shared service organization which fosters cooperation, customer focus, efficiency and cost savings across the corporation. The implementation of our E21 enterprise-wide information system utilizing SAP R/3 software is an integral part of this process. The new system became operational in Canada in

"Since I was a little girl, I've called



Jane Klinger
70-something

Stockholder
since 1981

Compound Annual Growth Rate
of stockholder value on 12/31/98:

April 1998. This provided us with valuable insights and experience, greatly enhancing the early 1999 implementation of the supply/financial aspects of E21 in our large domestic business. This new system will solve most of our Y2K issues.

In October 1998, we announced management changes which are a continuation of the shared services organizational design we embarked upon several years ago. As we moved from a vertical divisional structure into a more horizontal shared services environment, it was logical to organize our senior management along these lines. In addition, as top managers approach the traditional retirement age for Hershey executives, we also are mindful of our responsibility to have a capable, experienced and tested management team to provide continued leadership for Hershey as we move into the new millennium.

Effective January 1, 1999, the following senior management changes took effect. Joseph P. Viviano, formerly President and Chief Operating Officer, became Vice Chairman. He continues to serve on the Board of Directors and the Management Committee. He also has direct responsibility for Hershey's international business.

Michael F. Pasquale, formerly President, Hershey Chocolate North America, became Senior Vice President, Confectionery and Grocery, and joined the Board of Directors. His primary responsibility is to lead the effort to increase the profitable growth of our businesses, enhancing returns in the process. To assist in this regard, a corporate-wide Operating Committee of senior executives, chaired by Mr. Pasquale, was established.

Hershey's Kisses 'silver bells.'"



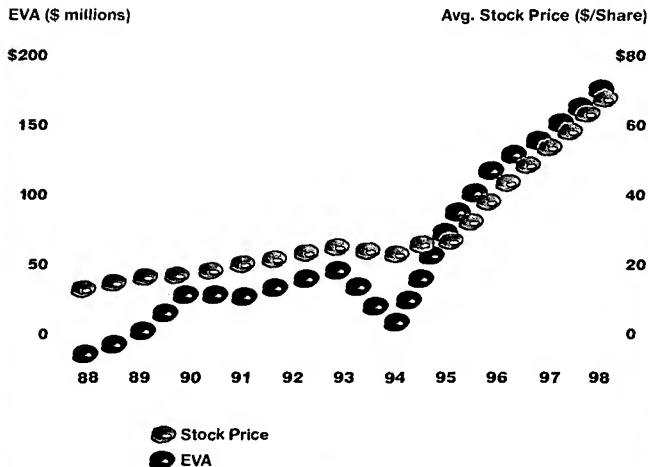
**Favorite
product**



Hershey's Kisses
Introduced in 1907

Economic Value Added (EVA)*

vs HSY Stock Price



* EVA is a registered trademark of Stern Stewart & Co.



"I've always liked strong colors ...

Elizabeth Leidy 12
and brother **Chris** 15

Stockholders
since 1990

Raymond Brace, formerly Vice President, Operations, became Senior Vice President, Operations, with responsibility for operations and manufacturing shared services. His chief task is to provide procurement, manufacturing and distribution services to support our growth in an efficient, cost-effective manner while continuing to provide excellent customer service.

Robert M. Reese, formerly Vice President, General Counsel and Secretary, became Senior Vice President — Public Affairs, General Counsel and Secretary, with responsibility for the corporation's legal, government relations and corporate communications activities.

Sharon A. Lambly, Vice President, Human Resources, since 1988, retired in December. Over the years she made significant contributions to Hershey Foods through her astute and common-sense management of the human resources function and was eminently successful in integrating the human resources point of view in the management decision-making process. She was a credit to Hershey Foods, and we wish her the best in retirement.

Succeeding Ms. Lambly as Vice President, Human Resources, is John R. Canavan, who actually joined the corporation in September 1998 to ensure an orderly transition of duties. He comes to Hershey from IBM, where he served in a succession of human resources positions.

Effective March 1, 1999, Allan Z. Loren, Executive Vice President and Chief Information Officer, American Express Company, became a member of the Board of Directors. His

and intense fruit flavors."

Compound Annual Growth Rate
of stockholder value on 12/31/98:



Favorite
product



Jolly Rancher
Acquired by Hershey
in 1996


experience in ensuring that technology effectively supports business needs will serve the corporation well.

Vincent A. Sarni, a Director since 1991, will retire from the Board in April 1999. He has served on the Compensation and Executive Organization Committee and chaired the Committee on Directors and Corporate Governance. Hershey Foods has benefited greatly from his vast experience, discerning questions and solid advice.

MEASURING PROGRESS

While there are many ways to measure progress in achieving our goals, Hershey's management team has three primary benchmarks: earnings per share, free cash flow and economic value added (EVA). These measurements work hand-in-hand to help us focus on decisions which lead to the most efficient uses of our resources to produce the results expected by investors.

The entire Hershey team, including every employee, has a stake in the performance of the corporation. We are all committed to achieving increased sales growth and efficiency improvements leading to lower costs. These efforts will lead to improved profitability, increased cash flows and higher returns, driving Hershey's Common Stock price to higher levels over the long term and increasing value for our stockholders.



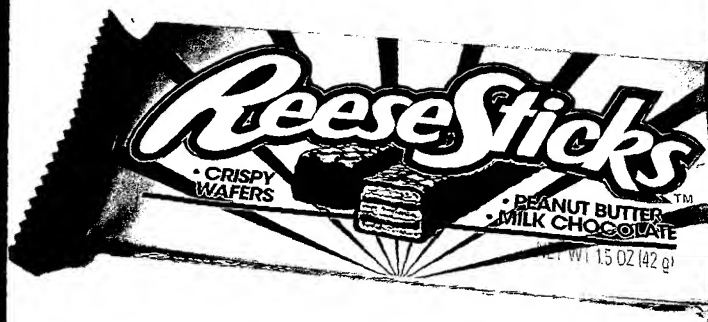
Kenneth L. Wolfe
Chairman and Chief
Executive Officer



Joseph P. Viviano
Vice Chairman

The Dynamics of Launching a New Product

New products launched between 1988 and 1998 comprise over 15% of Hershey's total U.S. confectionery business.



"ReeseSticks are the ultimate!"

Daniel Adams 18
and Andy Mellon

New
stockholder

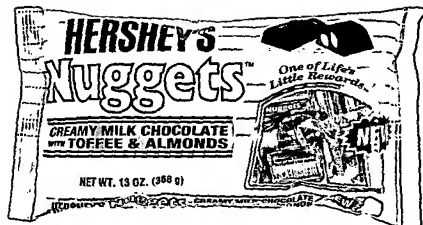
Favorite product:
ReeseSticks
Introduced in 1998

New products were crucial to Hershey achieving the number one position in the U.S. non-chocolate confectionery category and maintaining our leadership position in the chocolate category.

Hershey's new product success vastly exceeds the success rate of the food industry. Every new brand launched by Hershey since 1990 is still in distribution.

There are six key factors in a successful new products program:

- The first and most important factor is a very clear, well-thought-out plan — “the strategic blueprint.” This means taking the time to understand every



segment of the confectionery category. Hershey follows the latest consumer and snack category trends and understands their implications for the confectionery business.

- Our second key to success is the effective use of technology to meet consumer needs. The role of technology is critical to ensuring that we deliver the highest possible quality and great taste.
- Third is constantly talking to and listening to consumers every step of the way to be sure we stay on track.
- Making sure the product has a meaningful point of difference is the fourth key factor. Most new products fail in the market because they are "me-too" products with no unique benefit to the consumer.
- Executional perfection is the fifth factor. We test every element of our new products with consumers before we bring them to market. This includes the name, the package, the advertising, and above all, the taste and quality.



- The sixth key element is Hershey's high-performing team. Behind every new product we launch there are hundreds of people who are incredibly capable and dedicated. The secret ingredient of our success has been the ability to bring together a multi-functional group from across the corporation and mold them into a motivated team intensely committed to common goals. We continue to learn from every launch, constantly fine-tuning the process.

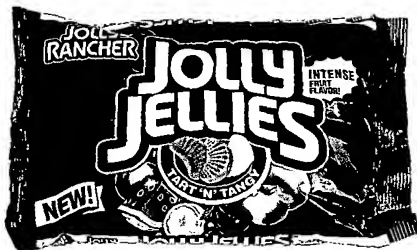
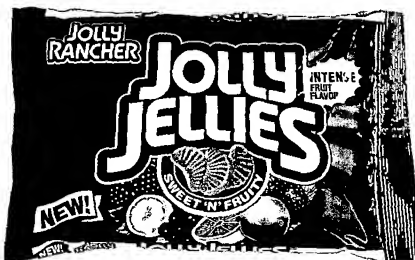
Supported by the six key factors, our new products process is analogous to a funnel which is full at all times with new products in various stages of development. The top of the funnel contains many concepts. While they are being evaluated with consumers by our Marketing Department, they also are undergoing technical evaluation for feasibility by our Product Development and Engineering Groups. Product Development then creates product prototypes which receive further consumer testing.



As the funnel narrows, products continue to be improved. Some products are discarded because of technical barriers, lack of desired profitability or lower-than-desired consumer test scores.

Finally, those products having high potential for success emerge from the developmental funnel and are launched in the marketplace. If we have done our job, the new product will deliver:

- Great taste;
- Excellent value;
- High consumer acceptance;
- Acceptable shelf life; and,
- Profitability.





Hershey's Principal Products

UNITED STATES

Chocolate Confectionery

Almond Joy candy bar
Cadbury's chocolate bars
Cadbury's Creme Eggs candy
Cadbury's Mini Eggs candy
Caramello candy bar
5th Avenue candy bar
Heath toffee bar
Hershey's Bites candies
Hershey's Cookies 'n' Creme candy bar
Hershey's Hugs chocolates
Hershey's Kisses chocolates
Hershey's Kisses With Almonds chocolates
Hershey's milk chocolate bar
Hershey's milk chocolate bar with almonds
Hershey's Miniatures chocolate bars
Hershey's Nuggels chocolates
Hershey's Put of Gold chocolates
Hershey's Sweet Escapes candy bars
Kil Kat water bar
Rackel chocolate bar
Milk Duds candy
Mounds candy bar
Mr. Goodbar chocolate bar
Reese's crunchy cookie cups
Reese's Nutrageous candy bar
Reese's peanut butter cups
ReeseSticks water bars
Rolo caramels in milk chocolate
Skor toffee bar
Special Dark chocolate bar
Symphony milk chocolate bars
Whatchamacallit candy bar
Whoppers malted milk balls
York peppermint patties

Non-Chocolate Confectionery

Amazin' Fruit gummy bears
Amazin' Fruit Super Fruits candy
Chuckles candy
Good & Plenty candy
Good 'n' Fruity candy
Hoide gummy bears
Helde jujubes
Hershey's classic caramels
Hershey's jellybeans

Jolly Rancher bubble gum
Jolly Rancher candy
Jolly Rancher gummies
Jolly Rancher lollipops
Jolly Rancher Jolly Jellies candy
Jolly Rancher Jolly Beans jellybeans
Julifruits candy
Luden's throat drops
Nibs candy
PayDay peanut caramel bar
Rain-Bio gumballs
Reese's Pieces candy
Sixlets candy
Sour Dudes candy
Super Bubble bubble gum
TasteTations candy
Twizzlers candy
Twizzlers Pull-n-Peel candy
Wunderbeens jellybeans
Zagnut candy bar
Zero candy bar

Grocery Products

Heath toffee baking chips
Hershey's baking chocolate
Hershey's baking chips
Hershey's chocolate drink
Hershey's chocolate milk mix
Hershey's Chocolate Shoppe ice cream toppings
Hershey's cocoa
Hershey's fat-free sundae syrups
Hershey's food service products
Hershey's Goodnight Hugs hot cocoa mixes
Hershey's Goodnight Kisses hot cocoa mixes
Hershey's Hot Cocoa Collection hot cocoa mixes
Hershey's syrup
Mounds coconut flakes
Reese's baking chips
Reese's peanut butter

MEXICO

Chocolate Confectionery

Almond Joy candy bar
Hershey's Bites Cookies 'n' Creme candy
Hershey's chocolate covered almonds
Hershey's Cookies 'n' Creme candy bar

*Available only in Canada

Hershey's extra creamy milk chocolate candy bar

Hershey's extra creamy milk chocolate with almonds candy bar

Hershey's Giant Kiss chocolates

Hershey's Giant Kiss With

Almonds chocolates

Hershey's Hugs chocolates

Hershey's Kisses chocolates

Hershey's Kisses With Almonds

chocolates

Hershey's milk chocolate bar

Hershey's milk chocolate bar

with almonds

Hershey's milk chocolate bar

with hazelnuts

Hershey's Mini Kisses chocolates

Hershey's Miniatures chocolate bars

Hershey's Nuggets Cookies 'n' Creme
candy

Krackel chocolate bar

PayDay peanut caramel bar

Reese's crunchy cookie cups

Reese's Nutrageous candy bar

Reese's peanut butter cups

ReeseSticks wafer bars

York peppermint patties

Grocery Products

Hershey's chocolate chips

Hershey's chocolate drink

Hershey's chocolate milk mix

Hershey's cocoa

Hershey's strawberry drink

Hershey's syrup

CANADA

Chocolate Confectionery

Bridge Mixture candy

Cherry Blossom candy

Eat-More candy bar

Glosette chocolate covered almonds

Glosette chocolate covered raisins

Glosette chocolate covered peanuts

Hershey almond bar

Hershey almond & toffee

chips chocolate bar

Hershey Cookies 'n' Creme candy bar

Hershey Creamy Caramel chocolate bar

Hershey Hugs chocolates

Hershey Kisses chocolates

Hershey Kisses With Almonds
chocolates

Hershey milk chocolate bar

Hershey Miniatures chocolates

Hershey Nuggets chocolates

Hershey Sweet Escapes caramel

chewy bar

Hershey Sweet Escapes crunchy

peanut butter bar

Hershey Sweet Escapes triple

chocolate wafer bar

Lowmex boxed chocolates

Oh Henry! chocolate bar

Oh Henry! chocolate fudge

chocolate bar

Oh Henry! peanut butter chocolate bar

Ovation chocolate covered sticks

Pot of Gold boxed chocolates

Reese cookie cups

Reese Peanut Butter Cups candy

Reese Peanut Butter Cups

crunchy candy

Skor toffee chocolate bar

Special Crisp chocolate bar

Special Dark chocolate bar

Whoppers chocolate candy

York peppermint patties

Non-Chocolate Confectionery

Goodies candy

Jolly Rancher candy, bubble gum

and freezer snacks

Hershey classic caramels candy

Hershey TasteTations candy

Mr. Freeze freezer snacks

Nibs candy

Rain-Bo gumballs

Reese's Pieces candy

Twizzlers candy

Twizzlers candy

Twizzlers Pull-n-Peel candy

Grocery Products

Brown Cow milk modifier

Chipsits baking chocolate

Chipsits chocolate chips

Hershey chocolate mint low fat

sundae topping

Hershey chocolate chips

Hershey cocoa

Hershey double chocolate low fat

sundae topping

Hershey fondue chocolate

Hershey Hot Cocoa Collection

hot cocoa mixes

Hershey instant chocolate mix

Hershey low fat cocoa

Hershey syrup

Strawberry Cow milk modifier

Top Scotch butterscotch syrup

INTERNATIONAL

Hershey's chocolate milk mix

Hershey's coconut with almonds

Hershey's Cookies 'n' Creme candy bar

Hershey's extra creamy milk

chocolate bar

Hershey's extra creamy milk chocolate

bar with almonds

Hershey's Kisses chocolates

Hershey's Kisses With Almonds

chocolates

Hershey's Kisses extra creamy

chocolates

Hershey's Kisses extra creamy

chocolates with almonds

Hershey's milk chocolate bar

Hershey's milk chocolate bar

with almonds

Hershey's Nuggets chocolates

Hershey's Miniatures chocolate bars

Hershey's peanut caramel bar

Hershey's syrup

Hershey's twin wafer bar

Reese's peanut butter cups

INTERNATIONAL LICENSED ITEMS

Hershey's almond ice cream bar

Hershey's extra creamy ice cream bar

Hershey's chocolate drink

Hershey's chocolate pudding

Hershey's chocolate ice cream bar

Hershey's Krackel ice cream bar

Consolidated Statements of Income

Hershey Foods Corporation

In thousands of dollars except per share amounts

For the years ended December 31: 1998 1997 1996

Net Sales	\$4,435,615	\$4,302,236	\$3,989,308
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Costs and Expenses:

Cost of sales	2,625,057	2,488,896	2,302,089
Selling, marketing and administrative	1,167,895	1,183,130	1,124,087
Loss on disposal of businesses	<u>—</u>	<u>—</u>	<u>35,352</u>
Total costs and expenses	<u>3,792,952</u>	<u>3,672,026</u>	<u>3,461,528</u>

Income before Interest and Income Taxes	642,663	630,210	527,780
Interest expense, net	<u>85,657</u>	<u>76,255</u>	<u>48,043</u>

Income before Income Taxes	557,006	553,955	479,737
Provision for income taxes	<u>216,118</u>	<u>217,704</u>	<u>206,551</u>

Net Income	\$ 340,888	\$ 336,251	\$ 273,186
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Net Income Per Share — Basic	\$ 2.38	\$ 2.25	\$ 1.77
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Net Income Per Share — Diluted	\$ 2.34	\$ 2.23	\$ 1.75
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Cash Dividends Paid Per Share:

Common Stock	\$.920	\$.840	\$.760
Class B Common Stock	.835	.760	.685

The Consolidated Financial Statements and Management's Discussion and Analysis are included as an appendix to the corporation's Proxy Statement or can be obtained separately through the Investor Relations contact listed on page 39.

Consolidated Balance Sheets

in thousands of dollars

Hershey Foods Corporation

December 31, 1998 1997**ASSETS****Current Assets:**

Cash and cash equivalents	\$ 39,024	\$ 54,237
Accounts receivable—trade	451,324	360,831
Inventories	493,249	505,525
Deferred income taxes	58,505	84,024
Prepaid expenses and other	91,864	30,197
Total current assets	1,133,966	1,034,814

Property, Plant and Equipment, Net

1,648,058 1,648,237

Intangibles Resulting from Business Acquisitions

530,464 551,849

Other Assets

91,610 56,336

Total assets\$ 3,404,098 \$ 3,291,236**LIABILITIES AND STOCKHOLDERS' EQUITY****Current Liabilities:**

Accounts payable	\$ 156,937	\$ 146,932
Accrued liabilities	294,415	371,545
Accrued income taxes	17,475	19,692
Short-term debt	345,908	232,451
Current portion of long-term debt	89	25,095
Total current liabilities	814,824	795,715

Long-term Debt

879,103 1,029,136

Other Long-term Liabilities

346,769 346,500

Deferred Income Taxes

321,101 267,079

Total liabilities2,361,797 2,438,430**Stockholders' Equity:**

Preferred Stock, shares issued: none in 1998 and 1997	—	—
Common Stock, shares issued: 149,502,964 in 1998 and 149,484,964 in 1997	149,503	149,485
Class B Common Stock, shares issued: 30,447,908 in 1998 and 30,465,908 in 1997	30,447	30,465
Additional paid-in capital	29,995	33,852
Unearned ESOP compensation	(25,548)	(28,741)
Retained earnings	2,189,693	1,977,849
Treasury—Common Stock shares, at cost: 36,804,157 in 1998 and 37,018,566 in 1997	(1,267,422)	(1,267,861)
Accumulated other comprehensive income	(64,367)	(42,243)
Total stockholders' equity	1,042,301	852,806
Total liabilities and stockholders' equity	<u>\$ 3,404,098</u>	<u>\$ 3,291,236</u>

The Consolidated Financial Statements and Management's Discussion and Analysis are included as an appendix to the corporation's Proxy Statement or can be obtained separately through the Investor Relations contact listed on page 39.

Consolidated Statements of Cash Flows

in thousands of dollars

Hershey Foods Corporation

For the years ended December 31,	1998	1997	1996
Cash Flows Provided from (Used by)			
Operating Activities			
Net income	\$ 340,888	\$ 336,251	\$ 273,186
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	158,161	152,750	133,476
Deferred income taxes	82,241	16,915	22,863
Loss on disposal of businesses	—	—	35,352
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable—trade	(90,493)	(68,479)	5,159
Inventories	12,276	(33,538)	(41,038)
Accounts payable	10,005	12,967	14,032
Other assets and liabilities	(124,118)	85,074	15,120
Other, net	745	4,018	5,593
Net Cash Provided from Operating Activities	389,705	505,958	463,743
Cash Flows Provided from (Used by)			
Investing Activities			
Capital additions	(161,328)	(172,939)	(159,433)
Capitalized software additions	(42,859)	(29,100)	—
Business acquisitions	—	—	(437,195)
Proceeds from divestitures	—	—	149,222
Other, net	9,284	21,368	9,333
Net Cash (Used by) Investing Activities	(194,903)	(180,671)	(438,073)
Cash Flows Provided from (Used by)			
Financing Activities			
Net change in short-term borrowings partially classified as long-term debt	(36,543)	(217,018)	210,929
Long-term borrowings	—	550,000	—
Repayment of long-term debt	(25,187)	(15,588)	(3,103)
Cash dividends paid	(129,044)	(121,546)	(114,763)
Exercise of stock options	19,368	14,397	22,049
Incentive plan transactions	(22,458)	(35,063)	(45,634)
Repurchase of Common Stock	(16,151)	(507,654)	(66,072)
Net Cash (Used by) Provided from Financing Activities	(210,015)	(332,472)	3,406
Increase (Decrease) in Cash and Cash Equivalents	(15,213)	(7,185)	29,076
Cash and Cash Equivalents as of January 1	54,237	61,422	32,346
Cash and Cash Equivalents as of December 31	\$ 39,024	\$ 54,237	\$ 61,422
Interest Paid	\$ 89,001	\$ 64,937	\$ 52,143
Income Taxes Paid	123,970	181,377	180,347

The Consolidated Financial Statements and Management's Discussion and Analysis are included as an appendix to the corporation's Proxy Statement or can be obtained separately through the Investor Relations contact listed on page 39.

Investor Information

Stockholders

As of December 31, 1998, Hershey Foods Corporation had outstanding 112,698,807 shares of Common Stock and 30,447,908 shares of Class B Common Stock.

Year	Year-end Common Stock and Class B Common Stockholders	Approximate Annual Composite Trading Volume
1998	44,364	78,955,000
1997	44,602	74,781,000
1996	42,483	47,002,000
1995	38,480	30,498,000
1994	34,327	31,330,000

Stock Market Data

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." Class B Common Stock is not listed for trading. The stock tables of most financial publications list the corporation as "Hershey." Options on the corporation's Common Stock are traded on the American Stock Exchange.

Common Stock Profile

1998	Common Stock Price			Dividends Paid Per Share	
	High	Low	Close	Common	Class B
Calendar quarter					
1st Quarter	\$73 $\frac{3}{4}$	\$59 $\frac{1}{16}$	\$71 $\frac{1}{8}$	\$.22	\$.20
2nd Quarter	76 $\frac{1}{4}$	67 $\frac{1}{16}$	69	.22	.20
3rd Quarter	72 $\frac{5}{16}$	60 $\frac{1}{2}$	68 $\frac{7}{16}$.24	.2175
4th Quarter	75 $\frac{1}{16}$	60 $\frac{1}{4}$	62 $\frac{1}{16}$.24	.2175

Dividend Policy

Dividends on Hershey Foods Corporation's Common Stock and Class B Common Stock are declared by the Board of Directors and normally are paid in the months of March, June, September and December.

The dividend paid on the Common Stock on March 15, 1999, was the 277th consecutive quarterly dividend paid by the corporation. The dividend rate has been increased annually for 24 consecutive years. Historically, the corporation has targeted approximately one-third of income from continuing operations as dividends to stockholders.

Investor Services Program

The corporation, through its agent, The Chase Manhattan Bank, offers an Investor Services Program. Features of this program include the ability to purchase initial shares of Hershey Foods Common Stock as well as subsequent purchases directly from our agent, dividend reinvestment on 10 shares or greater, automatic monthly deductions from a bank account for optional cash purchases, safekeeping of certificates, direct deposit of dividends, and an IRA option. For more information contact:

The Chase Manhattan Bank
c/o ChaseMellon Shareholder Services
P.O. Box 3338
South Hackensack, NJ 07606-1938
(800) 851-4216
Internet: <http://www.chasemellon.com>

To request enrollment materials, please call (800) 842-7629.

Safe Harbor Statement

The nature of the corporation's operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the corporation notes the following factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "believe," "expect," "anticipate," "should," "planned," "estimated" and "potential" among others. Factors which could cause results to differ include, but are not limited to: changes in the confectionery and grocery business environment, including actions of competitors and changes in consumer preferences; changes in governmental laws and regulations, including income taxes; market demand for new and existing products; and raw material pricing.

Stockholder Inquiries

Questions relating to stockholder records, change of ownership, change of address and dividend payments should be sent to the corporation's Transfer Agent, ChaseMellon Shareholder Services, listed on page 39.

Financial Information

Security analysts, investment managers and stockholders should direct financial information inquiries to the Investor Relations contact listed on page 39.

1998 Summary Annual Report

To control costs and to better meet our stockholders' needs, we have published a 1998 Summary Annual Report. The Consolidated Financial Statements and Management's Discussion and Analysis are included as an appendix to the corporation's Proxy Statement or can be obtained separately through the Investor Relations contact listed on page 39.

Stockholder Information

Executive Offices

100 Crystal A Drive
P.O. Box 810
Hershey, PA 17033-0810
(717) 534-4000

Transfer Agent and Registrar

ChaseMellon
Shareholder Services
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
(800) 851-4216
Internet:
<http://www.chasemellon.com>

Independent Public Accountants

Arthur Andersen LLP
1345 Avenue of the Americas
New York, NY 10105

Investor Relations Contact

James A. Edris
Director, Investor Relations
100 Crystal A Drive
Hershey, PA 17033-0810
(717) 534-7556
Email: jedris@hersheys.com

Form 10-K

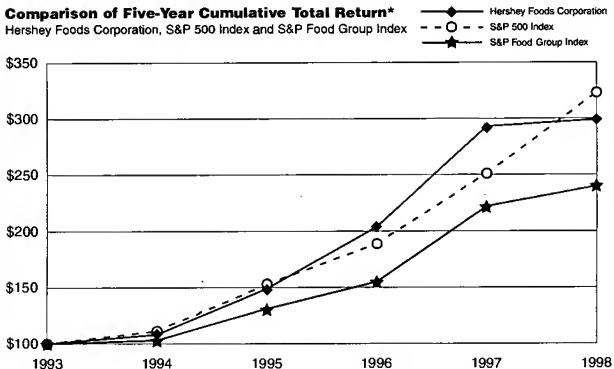
Form 10-K, filed annually
in March with the Securities
and Exchange Commission,
is available without charge
by contacting Investor
Relations at the address
and telephone number
listed on this page.

Financial Information

(800) 539-0261
Internet:
<http://www.hersheys.com>

Comparison of Five-Year Cumulative Total Return*

Hershey Foods Corporation, S&P 500 Index and S&P Food Group Index



*Total return assumes reinvestment of dividends. Assumes \$100 invested on 12/31/93 in Hershey Foods Common Stock, S&P 500 Index and S&P Food Group Index.

Directors and Senior Management

as of March 1, 1999

BOARD OF DIRECTORS

Kenneth L. Wolfe
Chairman of the Board and
Chief Executive Officer

William H. Alexander
Administrator
Family Business Program
The Wharton School of the
University of Pennsylvania
Philadelphia, Pa.

Robert H. Campbell
Chairman of the Board and
Chief Executive Officer
Sunoco, Inc.
Philadelphia, Pa.

C. McCollister Evarts, M.D.
Senior Vice President for
Health Affairs and Dean
The Pennsylvania State
University
College of Medicine
Hershey, Pa.
President and Chief
Academic Officer
Penn State Geisinger
Health System
Harrisburg, Pa.

Bonnie Guiton Hill
President and
Chief Executive Officer
The Times Mirror Foundation
Vice President
The Times Mirror Company
Senior Vice President
Communications and
Public Affairs
The Los Angeles Times
Los Angeles, Calif.

John C. Jamison
Chairman of the Board
Mallardee Associates
Williamsburg, Va.

Allan Z. Loren
Executive Vice President
and Chief Information Officer
American Express Company
New York, N.Y.

Mackey J. McDonald
Chairman of the Board,
President and
Chief Executive Officer
VF Corporation
Greensboro, N.C.

Michael F. Pasquale
Senior Vice President
Confectionery and Grocery

John M. Pietruski
Chairman of the Board
Texas Biotechnology
Corporation
Houston, Texas

Vincent A. Sarni
Retired Chairman
of the Board and
Chief Executive Officer
PPG Industries, Inc.
Pittsburgh, Pa.

Joseph P. Viviano
Vice Chairman of the Board

Audit Committee

Bonnie Guiton Hill, Chair
Robert H. Campbell
Mackey J. McDonald
John M. Pietruski

Committee on Directors and Corporate Governance

Vincent A. Sarni, Chair
William H. Alexander
John C. Jamison
John M. Pietruski
Kenneth L. Wolfe

Compensation and Executive Organization Committee

Robert H. Campbell, Chair
C. McCollister Evarts, M.D.
Mackey J. McDonald
Vincent A. Sarni

Executive Committee

Kenneth L. Wolfe, Chair
Joseph P. Viviano
Michael F. Pasquale

MANAGEMENT COMMITTEE

Kenneth L. Wolfe
Chairman of the Board and
Chief Executive Officer

Joseph P. Viviano
Vice Chairman of the Board

Raymond Brace
Senior Vice President
Operations

William F. Christ
Senior Vice President
Chief Financial Officer
and Treasurer

Michael F. Pasquale
Senior Vice President
Confectionery and Grocery

Robert M. Reese
Senior Vice President
Public Affairs, General Counsel
and Secretary

John R. Canavan
Vice President
Human Resources

ady Growth ry Category

Per capita consumption of confectionery products in the United States has increased from 18.3 pounds to 24.9 pounds per person since 1987. This steady growth over the past 10 years has been driven in large part by Hershey's strengths:

- Superior consumer value — products of consistently high quality at a reasonable price — which leads to strong brand loyalty.
- Strong marketing programs, including effective seasonal programs, consistent and well-targeted advertising and highly focused trade promotions, which encourage retailers to aggressively sell confectionery products.
- Creative and exciting thematic selling events such as *"The Lost World: Jurassic Park," "Godzilla"* and sponsorships with **MAJOR LEAGUE BASEBALL, NASCAR, NFL, NCAA FINAL FOUR**, along with appropriate displays, help drive the business for both Hershey and retailers.
- Category management — partnering with our customers to provide data and specific programs tailored to their needs — maximizes sales for our customers' entire confectionery business.
- New products which create excitement for the confectionery category and help stimulate consumer purchases.

breath away."



**Favorite
product**



York Peppermint Patties
Acquired by Hershey in 1988

SENIOR MANAGEMENT

Patrice N. Le Maire
President
Hershey International

Richard E. Meyers
President and
General Manager
Hershey Canada

Richard E. Bentz
Vice President
Information Technology
Integration

Jay F. Carr
Vice President
Research Services and
Special Operations

Frank Cerminara
Vice President
Procurement

Charles L. Duncan, Ph.D.
Vice President
Research and Development

Dennis N. Eshleman
Vice President and
General Manager
Grocery

R. Montgomery Garabrant
Vice President
Financial Services

Michael H. Holmes
Vice President and
General Manager
Chocolate

Kenneth B. Kwiat
Vice President
Manufacturing

Milton T. Matthews
Vice President
Sales

Anthony J. Pingitore
Vice President and
General Manager
Special Markets

David W. Tacka
Corporate Controller and
Chief Accounting Officer

R. Brent Thomas
Vice President and
General Manager
Non-Chocolate

Michael V. Wells
Vice President
Logistics

Robert L. Woelfling
Vice President
Engineering and Technology



Management Committee (from left to right)
Raymond Brace, Robert M. Reese, John R. Canavan, Kenneth L. Wolfe,
Joseph P. Viviano, William F. Christ, Michael F. Pasquale

Hershey Drives Steadily of U.S. Confectionery

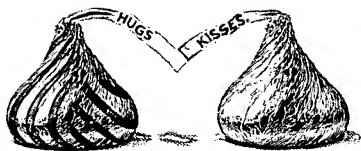


"York Peppermint Patties have always taken my

Yolanda Olavarria
20-something

Employee and
Stockholder
since 1994

Compound Annual Growth Rate
of stockholder value on 12/31/98:



Have you Hugged and Kissed your kids today?